Financ Mark Portf Manag (2014) 28:105–109
DOI 10.1007/s11408-013-0220-y

BOOK REVIEW

Ronald Chan: The Value Investors: Lessons from the World's Top Fund Managers

John Wiley & Sons, 2012, 250 pages, approx. 20 USD

Sina Marquardt

Published online: 14 January 2014

Ronald W. Chan's motivation to write this book is that as a value fund manager himself, he has never felt that an investment skill set alone is the determining factor in beating the stock market. Therefore, he decided to write a different kind of value investing book looking at a more personal side of value investing when compared with previous books. In his viewpoint, value investing is not an old-fashioned discipline but rather a dynamic and re-invented investment strategy. Investment legend Warren Buffett once said that "success in investing doesn't correlate with I.Q. once you're above the level of 125. Once you have ordinary intelligence, what you need is the temperament to control the urges that get other people into trouble in investing". Chan's book is exactly elaborating on this kind of personal characteristics by interviewing 12 of the world's leading value investors, including those from Europe and Asia. The book brings together a set of thorough and rigorous portraits of a comprehensive range of noticeable value investors from multiple generations, countries and with different investment approaches. The focus of the book is on how a personal background, culture, and life experiences shape the investment mindset and strategy. The book is of practical value for experienced and less experienced value investors by giving the reader the opportunity to profit from those experiences by reading personal biographies of different value investment legends. The most important lesson one might take away is that value investment success depends more on character than on mathematical or technical abilities.

The different chapters in the book are each based on the story of an outstanding value investor. The author highlights the most important events in the life of the respective investor, followed by a summary of the personal success factors and investment mindset of the investor. The book starts with 95-year-old Walter Schloss (described by Warren Buffett as the "super-investor from Graham-and-Dodsville"), followed by

S. Marquardt (✉)
University of St. Gallen, Rosenbergstr. 52, 9000 St. Gallen, Switzerland
e-mail: sina.marquardt@unisg.ch

106-year-old investment-legend Irving Kahn, who worked closely with "father of value investing" Benjamin Graham and remains active today, to Francisco García Paramés of Spain's Bestinver Asset Management. Chan intentionally chooses investment legends from around the world to help the reader to understand how they have constantly beaten the stock market in their respective country and how these men became strong advocates of the value investment approach despite their apparent personal differences. As the book reads like a collection of short biographies of the leading value investors, I will attempt to highlight some of the value investing philosophies from the book and summarize them below.

The first four chapters focus on important value investors from the US who all share that they have been in close contact with Benjamin Graham "the father of value investing". Some of the portrayed investors have been students of Graham's class, other have worked with him, while others have been his teaching assistant. After working for a while, these investors found their own companies and implemented successful value investment strategies. The first chapter focuses on Walter Schloss who is the founder of Walter & Edwin Schloss Associates. As a young man, Schloss lived through poverty since his family lost all their money during the Great Depression. Experience of survival during the great depression and his time at war shaped his investment mindset. Graham and Schloss shared the same investment mindset by prioritizing the survival of the market by seeking downside protection and diversification of the investment portfolio to minimize individual stock risk. In summary, Schloss recommends to be an original and clear thinker (clear = without emotions), have high ethical standards, be modest and unassuming and keep things simple.

In Chapter 2, Irving Kahn, from Kahn Brothers Group, is portrayed. Mr. Kahn is a successful value investor in the US and he was also a student of Graham's class. Growing up during the Great Depression, Mr. Kahn learnt what fragility meant and the importance of not losing any money. His investment philosophy is based on the idea that true value investing requires patience (undervalued investments are initially not recognized by the market), discipline (hard work and look at the numbers) and skepticism (about reported financial statements; in the early days). During his professional career, Mr. Kahn held various positions in security analysis and later become a partner of different investment companies. In 1978 he found his own company with his two sons and his business partner. Until this day, Mr. Kahn gets his investment ideas from reading the daily newspaper. In addition, he also read scientific newspapers and technology, history and psychology magazines to generate his own broad perspective of the future. The major lessons to be learnt from Mr. Kahn are that as a value investor you should be especially interested in future ideas, compile all your information to make your own picture of the future and use this information for making investment decisions.

Chapter 3 connects to the previous chapter, since the son of Irving Kahn, named Thomas Graham Kahn, is portrayed. His approach to value investing is based on the ideas of Benjamin Graham however, modified by also looking at corporate health (quality of a business and its assets). Mr. Kahn promotes a "contrarian" investment style which means buying in downturns and recession times combined with emotional intelligence.

Chapter 4 introduces Mr. William Browne, who is a successful managing director and portfolio manager at Tweedy, Browne Company LLC, in the US. His central idea is that a stock represents an interest in a business and has to be valued as such. In addition, he is convinced that investing is not a natural science but rather social science since it is driven by people. He further developed the concept of value investing including items like equity and debt structure, profit margins, sales, cash management, competition landscape, reputation, brands, insider ownership, etc.

Chapter 5 portrays Jean-Marie Eveillard a French value investor who managed the First Eagle Global Fund (originally known as the SoGen International Fund) from 1979 to 2004 generating an average annual return of 15.76 % (benchmark index: MSCI World Index annual return of 11.29 %). His approach to value investing is based on first looking at the numbers (focus on intrinsic values), second evaluating the qualitative aspects of a firm identifying strengths and weaknesses of a business, and third, getting involved in personal discussions with the management to get a sense of their personality. Eveillard identified patience and the courage to say no as most important personal traits to succeed as a value investor.

In Chapter 6, the author looks at the Spanish investment legend called Francisco Paramés who has been managing Bestinver's funds since 1992, while in Chapter 7, Mr. Nutt partner of a U.K.-based asset management group is introduced. When looking for value investments, these investors are primarily focused on businesses that have a standing commitment to distribute income/generate returns in the form of dividends, special dividends or share buybacks. They both learnt that avoiding losses is the key and not generating excessive returns by leveraging up on an investment.

Chapter 8 is about Mark Mobius of the Templeton Emerging Markets Group, a subsidiary of Franklin Templeton Investments. Having studied and worked in the area of psychology, Mobius developed a fine sense of business sentiment and how social psychology influences the economy—which he called "feeling the market". His main investment advice is "Always make decisions based on what you have learned and act on information that you have gathered".

In Chapters 9–12 the focus is on value investors in Asia. Mr. Teng Lian (Chapter 9) is a founder of a long-only investment company based in Singapore with focus on Asian value investments. The company's flagship fund—Target Value Fund—generated an average annual return of 17.59 % from 1996 to 2010 (compared with benchmark MSCI ACFE: 4.29 %). Mr. Shuhei Abe (Chapter 10) is founder of the Japanese-based asset management holding company "SPARX". Mr. Abe's main focus was on small- and mid-sized companies in Japan during the 1980s where there was virtually no research published, thereby proving good investment opportunities. His valuation methodology was not only based on fundamentals but completed by analyzing earnings quality, core competencies of a business, cost management and shareholder value. From a rather personal viewpoint, Mr. Abe is a strong believer that "if an investment idea is sound, all that is required is patience and persistence". Chapter 11 gives insights into Mr. V-Nee Yeh's—co-founder of Value Partners Limited, a Hong Kong-based asset management company—investment principles. Mr. Yeh's most important aspect of being a good value investor is to keep a sense of fairness and integrity. Starting the valuation from the downside, one tends to be more prudent which helps to form your own opinion rather than following the herd. Voted among the most influential individuals in the investment business in Asia, Mr. Cheah Cheng Hye (Chapter 12), co-founder of Value Partner Limited in Hong Kong, promotes value investing throughout Asia. In formulating his investment ideas, Mr. Cheah focuses on the three R's: the right business operated by the right people and selling at the right price.

Chapter 13 presents a summary of the previous 12 chapters. Ronald Chan combines all the information and experiences while talking to various value investment legends and gives a short wrap-up of the most important lessons learnt from the world's top fund managers. The portrayed investors all have in common that they are curious about the world and never stop learning. By reading a lot, these investors are able to enlarge their knowledge in certain fields and thereby, are able to generate investment ideas. It is important to have a disciplined reading and learning routine, trying to understand the topics in a systematic manner. Besides reading, one of the most important lessons learnt is that all portrayed investors stay humble which translates into the margin of safety concept focusing more on downside protection than on upside potential. When it comes to personality, you have to be modest and have to accept lagging behind your peers and suffering psychologically and financially in doing so. Therefore, value investing attracts rather conservative people who are more concerned about the downside risk than upside potential. Knowing that the future is uncertain and nothing is sure, most value investors prefer a rather conservative strategy and hold fairly diversified portfolios. When it comes to valuation, most portrayed legends follow the concept of intrinsic valuation rather than extrinsic value; however, different methodologies of valuations are applied. Moreover, most investors focus on "more than just fundamentals" and take macro-economic factors and long-term business-cycles into account. The investment horizon of most investors is long-term meaning around 3–5 years. In the viewpoint of the portrayed value investors, long-term performance comes from two sources: return on investment and compounding effect of reinvestment. In a nutshell, reading, staying in motion, meeting different people, be inspired and focus on the future is the key for becoming a successful value investor. As Walter Schloss said "There is always something to do. You just need to look harder, be creative, and be a little flexible!"

In summary, the book succeeds in giving an insight into the temperament and investment philosophies of different value investors and enables the reader to learn more about these qualities. The author looks into different life and career experiences of successful value investors around the world and tries to extract only information related to their investment success. The author finds that most books out there on value investing are either too technical or too boring since they are lengthy investment memoirs. Hence, Chan's book is a collection of different investment personalities which are well chosen since they are of different generations, from different countries and show different traits of personality. The book has a strong focus on personal characteristics and skills rather than on technical abilities. In a nutshell, the book highlights important personal traits of a successful investor and also highlights that success can have different "faces". The different investment legends presented in the book are well chosen and the book covers a great deal of different investors in the area. Personally, I would recommend starting out with the summary section in Chapter 13 to get an overview what the book is all about.

Although the book is written in a concise and compact matter, there are some minor drawbacks which would improve the value of the give content. Although investment legends from around the world are portrayed in this book, the main focus is on male

US and Asian investors. Including more investors from outside the US and Asia, e.g. value investors from the BRIC's countries (Brazil, Russia, India and China) would add value to the book. The author seems to be a big fan of Warren Buffet and Benjamin Graham who are cited a lot throughout the book which is in some parts of the book very dominating and a little bit disturbing. In addition, the book uses rather easy and in some cases sloppy English language which shows that it is rather a book for leisure time than for professional investors. Personally, I am also missing some references to current resources like information on relevant homepages, downloadable material, and additional readings which might be valuable resources for investment professionals, academics as well as private investors.

In summary, the book is an informative, easy and enjoyable read and I personally would recommend it to anyone who is interested in investment strategies and in money management. The book does not require any major prerequisites in financial theory or a long track record in investment experience, however a basic understanding of financial analysis is recommended. Combining Chan's book with standard books on value investing and portfolio theory gives the interested reader a more complete picture of what value investing is about and how to implement it.